INNOVATIONS AND FINTECH IN HUNGARY – FROM THE REGULATOR’S POINT OF VIEW
Where Hungary is?

Central Bank of Hungary (MNB)
MNB FINTECH LAB
...AND IT’S BACKGROUND
MNB (CENTRAL BANK OF HUNGARY) FINTECH LAB

When

From 2018. March

Where

Established by MNB. Fintech Lab works under the direct control of Prudential Modelling and IT Supervision Directorate

Role

- Aim and role is different from the role of Fintech Labs in the private sector
- Working as HUB between MNB and market players
- Gather information about
  - New technologies
  - Products
  - Services
- Keep direct contact with innovators
- Find the (secure) way for implementation of the fintech innovations to the market practice
FINTECH INNOVATIONS BRING NEW CHALLENGES AT EVERY LEVEL OF FINANCIAL REGULATION

The legal environment and legal interpretations often hinder innovation as they have not fully adapted to technological advancement.

Regulatory environment for FinTech innovations to comply with in Hungary

Legal interpretations
Legal practices

MNB recommendations
Flexibility

MNB decrees
Flexibility

Hungarian financial regulation (law, non-MNB decrees)
Multiple regulatory perspectives

Acquis communautaire (regulations, directives)
Overly complex structure

No legislation needed
Innovation Hub

Regulatory Sandbox
A SUPERVISORY DILEMMA OCCURS IN CONNECTION WITH FINTECH INNOVATIONS

Unfair advantage
Competitive advantage of FinTech over strictly regulated financial institutions

Losing control
Spreading of cross-border activities, regulatory arbitrage

Obstacles to innovation
Maintaining the inefficient business models of incumbent institutions and hampering development

Excessive restrictions

Promoting FinTech innovations with cooperation between the regulator and market participants, while maintaining financial stability

Aim:
Finding the balance between excessively flexible and overly restrictive approaches

„Laissez faire”
Consumer protection?
Threat to depositors and investors

Possible solutions

Innovation Hub
- FinTech innovators get legal guidance from the supervisor
- It helps FinTech innovators to find information on the legislative environment

Regulatory sandbox
FinTech innovations can be tested
- for a certain time and under predefined conditions
- on a limited number of real consumers
- with exemption from certain regulatory requirements
## The MNB Aims to Support Digital Innovation Through Two Main Initiatives

<table>
<thead>
<tr>
<th>MNB Innovation Hub</th>
<th>MNB Regulatory Sandbox</th>
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<td><strong>Definition:</strong> It provides a dedicated point of contact for firms to raise enquiries on FinTech-related issues and to seek non-binding guidance on the conformity of innovative financial products, financial services or business models with licensing or registration requirements and regulatory and supervisory expectations.</td>
<td><strong>Definition:</strong> Customized test environment in which participants receive exceptions from national level regulations. The participants must have licence for the financial service providing.</td>
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<tr>
<td>Since March 2018, issues related to more than a dozen innovative solutions have been discussed with market participants</td>
<td>FinTech innovations can be tested</td>
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<tr>
<td>- Information repository</td>
<td>▪ for a certain time, under predefined conditions</td>
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<td>- Regulatory support platform</td>
<td>▪ on a limited number of customers</td>
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<td>- Communication hub</td>
<td>▪ with exemption from certain regulatory requirements</td>
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<td>- International cooperation platform</td>
<td>The MNB Regulatory Sandbox was launched in December 2018. Regulated by MNB’s decree.</td>
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INNOVATION HUB AND IT’S WORKING METHOD
MORE AND MORE COUNTRIES RECOGNIZE THE NEED FOR A PROPER REGULATORY RESPONSE TO THE FINTECH PHENOMENON

Supervision practice is not consistent at international level, but targeted solutions are being applied in more and more countries.
I. Handling incoming requests
- Filtering the incoming request and forwarding to relevant MNB divisions

II. Examination of acceptance criterias
- Accepting an application based on criteria (filtration)

III. Answer preparation and completion
- Processing the question or problem by competent expert(s)
- Answering to the innovator

Acceptance criterias:
- The request must contain innovation
- Applicant must know the relevant regulatory environment
- There is no prior regulation

DIRECT MNB GUIDANCE CAN BE REQUESTED VIA THE INNOVATION HUB PLATFORM

Innovation Hub – Regulatory support platform

FinTech innovation by a company/bank/insurer

Informing the applicant about the process

External mentor
REGULATORY SANDBOX
SETTING UP A REGULATORY SANDBOX FRAMEWORK CAN SUPPORT MARKET ENTRY OF INNOVATIVE SOLUTIONS I.

Phase I: Application period

1. Application of innovators
   - Orientation on acceptance criteria
   - Online application form

2. Handling incoming requests
   - Evaluation
   - Distribution within the MNB

3. Examination of acceptance criteria
   - Preliminary opinion on compliance
   - Decision on acceptance criteria compliance

Acceptance criteria
- Solution is proven to be innovative
- The aim is to introduce the solution on domestic market
- Concept is ready for the test

Phase II: Testing and evaluation
SETTING UP A REGULATORY SANDBOX FRAMEWORK CAN SUPPORT MARKET ENTRY OF INNOVATIVE SOLUTIONS II.

Phase I: Application period

- Possible outcomes of testing
  - A) Compliance with decrees
  - B) Amendment of decrees
  - C) Termination of the activity

Phase II: Testing and evaluation (following application period)

4. Launch of testing period
   - Discussion on conditions and details of testing
   - Decision on launching test period
   - Resolution on exemption

5. Testing
   - Monitoring based on reports and consultations
   - Regular review

6. Evaluation
   - Discussion and evaluation with the innovator
   - MNB evaluation based on preliminary KPIs

The whole process coordinated by a dedicated case officer
HUNGARIAN INSTANT PAYMENTS
AN ADVANCED BASIC INFRASTRUCTURE SUPPORTS
FINANCIAL INNOVATION

Preserving competitiveness
due to international
developments

Previous developments supported
faster payment solutions (e.g.
intraday clearing of credit transfers)

More benefits of instant
payments:
supporting the innovation
extending payment options

The Hungarian instant payment
service should be a widely used
payment option

Instant payments
WORKING METHOD AND MAIN CHARACTERISTICS

Processing of payment

Continuous operation with no planned downtime
Mandatory for credit transfers under HUF 10 million
5 seconds maximum execution time
Mandatory negative and optional positive responses
Prefunding at the Central Bank
Clearing and settlement on a per-transaction basis
Main rules appear in legislation or in standards
Secondary IDs Request to pay

Start date 01/07/2019 at 0h:00m:01s
NATURAL LANGUAGE PROCESSING AT MNB
**Definition:**

„Natural Language Processing (NLP) is a sub-field of Artificial Intelligence that is focused on enabling computers to understand and process human languages, to get computers closer to a human-level understanding of language. “*

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<td>- Significant Reduction in Human Involvement</td>
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<td>- Continuous processing</td>
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<tr>
<td>- Lower error rate</td>
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<td>- More efficient than the human processing</td>
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**The MNB plans to use this technology in particular:**

- By structuring highly unstructured data sources (e.g. phone calls, not readable pdf files, etc.)
- Handling large volumes of textual data
- Processing of the documentation received during the on- and off-site supervision

* source: https://towardsdatascience.com/an-easy-introduction-to-natural-language-processing-b1e2801291c1
... AND TO BE CONTINUED ...
...IN BUDAPEST FINTECH SUMMIT CONFERENCE
BUDAPEST, 2020. MARCH.
THANK YOU FOR YOUR ATTENTION!